Health Services
LOS ANGELES COUNTY

ADOPTED
BOARD OF SUPERVISORS
COUNTY OF LOS ANGELES
#22 NOVEMBER 15, 2011
SACHI A. HAMAI
EXECUTIVE OFFICER

Mitchell H. Katz, M.D.
Director
Hal F. Yee, Jr., M.D., Ph.D.
Chief Medical Officer
John F. Schunhoff, Ph.D.
Chief Deputy Director

313 N. Figueroa Street, Suite 912
Los Angeles, CA 90012

Tel: (213) 240-8101
Fax: (213) 481-0503

www.dhs.lacounty.gov

To ensure access to high-quality, patient-centered, cost-effective health care to Los Angeles County residents through direct services at DHS facilities and through collaboration with community and university partners

November 15, 2011

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, California 90012

Dear Supervisors:

APPROVAL OF EXPANDED DELEGATED AUTHORITY TO ENTER INTO PROVIDER SERVICES AGREEMENTS
(ALL DISTRICTS)
(3 VOTES

SUBJECT

Request approval to expand the current authority delegated to the Director of Health Services, to negotiate and execute provider services agreements with various entities, at rates to either meet aggregate/average variable cost, or at rates that are at or above Rogers/Post-Stabilization Rates, California Medical Assistance Commission rates, Medi-Cal Fee Schedule Medi-Cal Interim Reimbursement Rates, Medicare rates, or a percentage above Medi-Cal or Medicare rates, or a combination thereof.

IT IS RECOMMENDED THAT YOUR BOARD:

1. Delegate authority to the Director of Health Services (Director), or his designee, to negotiate and execute provider services agreements with health plans, Independent Physician Associations (IPAs), medical groups, and other payors for their members to obtain direct access to hospital and ambulatory care services at County hospitals and clinics (County facilities), at rates that are at or above the Department of Health Services (DHS or Department) aggregate/average variable cost for all services in each participating facility or all facilities, or other prevailing market/industry reimbursement rates, Rogers/Post-Stabilization Rates, California Medical Assistance Commission (CMAC) rates, Medi-Cal Fee Schedule (MFS), Medi-Cal Interim Reimbursement Rates (IRR), Medicare rates, or a percentage above Medi-Cal

or Medicare rates, or a combination thereof, for an initial term of one year, with optional four one-year automatic extensions, for a total term not to exceed five years, subject to review and approval by County Counsel, and notification to your Board and the Chief Executive Office (CEO).

2. Delegate authority to the Director, or his designee, to negotiate and execute amendment(s) to current hospital services agreements negotiated and executed under the October 16, 2007 Board delegated authority, and any new provider services agreements resulting from Recommendation Number One above to: a) extend the Agreement on a month-to-month basis, not to exceed six months, to provide sufficient time to replace the Agreement in its entirety; b) add new services; c) incorporate new or revised State/federal law and regulations, accreditation requirements, or County requirements, as applicable; d) to adjust rates, on a prospective basis, based on reimbursement rate mechanisms noted above; and e) make appropriate changes to the contract language to improve clarity and correct contract deficiencies, errors, and omissions, subject to review and approval by County Counsel, and notification to your Board and the CEO.

3. Delegate authority to the Director, or his designee, to terminate any provider services agreements that are determined by the Department to be: a) not cost-effective, b) non-performing, or c) do not meet the requirements of Board delegated authority, or a combination thereof, with notification to your Board and the CEO.

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION

On October 16, 2007, your Board authorized the Director to negotiate and execute new hospital services agreements with health plans to increase revenue for the Department, provided that the contracted rates covered the variable costs of participating DHS facilities. Since October 16, 2007, the Director has negotiated and executed a total of ten (10) hospital services agreements with health care plans. Revenue generated from these contracts is approximately $8.5 million for Fiscal Year (FY) 2007-08 through FY 2010-11.

It has become increasingly difficult for the Department to negotiate contracts with health plans and DHS is becoming less competitive with other providers due to the Department's inability to negotiate rates outside of the variable cost parameters. Prevailing practice outside of County, for instance, allows non-contracted private hospitals and physicians to accept the MFS rates as payment in full for Medi-Cal beneficiaries; and capitation rates negotiated between Medi-Cal Managed Care health plans and its contracted providers are partly based on MFS reimbursement. Additionally, Medicare's fee schedule, less any patient co-insurance or deductibles, is also accepted as payment in full for Medicare beneficiaries.

In addition, the Director under the current delegation is only authorized to negotiate and execute contracts with health plans, thus limiting the Department's opportunity to maximize its revenue by contracting with IPAs, medical groups, and other payors.

As the Department prepares to be the key provider of health care services in Los Angeles County, and to be responsive to the rapid and critical changes associated with health care reform, the approval of the recommendation to expand the current delegated authority by granting and authorizing the Director to enter into negotiations and execute provider services agreements with IPAs, medical groups and other payors, and by utilizing a variety of reimbursement mechanisms,

such as rates that are at or above the aggregate/average variable cost for all services in each participating facility or all facilities, or other prevailing market/industry reimbursement rates (e.g., Rogers/Post-Stabilization Rates, CMAC rates, MMFS, IRR, Medicare rates, percentage above Medi-Cal or Medicare rates, etc.), or a combination thereof, will allow the Department to be more competitive and allow more payors to direct their members to County facilities.

The Department is also requesting approval for the Director to negotiate and execute amendments to existing provider services agreements with health plans to allow for adjustment of rates for certain services based on various reimbursement mechanisms mentioned above. Such rate adjustments, on a prospective basis, will encourage the health plans to direct more of their members to County facilities, which otherwise would not have been viable using the previously negotiated rates. Amendment(s) to these existing agreements will also allow the Department to make appropriate changes to the contract language to improve clarity, and correct contract deficiencies, errors, and omissions, etc.

Lastly, the Department is also requesting approval for the Director to terminate any provider services agreements that are not consistent with the requirements of this Board delegated authority, not cost effective, or are non-performing, or a combination thereof. For instance, Rancho Los Amigos National Rehabilitation Center still has active contracts with certain health plans that have "evergreen" term provisions from the 1980's, for which the reimbursement rates and contract language are not consistent with the requirements of Board delegated authority. The Department will regularly perform evaluation of provider services agreements to determine if they are cost-effective and are contributing to the revenue goal of the Department.

Implementation of Strategic Plan Goals

The recommended action supports Goal 1, Operational Effectiveness, and Goal 4, Health and Mental Health of the County's Strategic Plan.

FISCAL IMPACT/FINANCING

This action is intended to increase potential revenue to DHS; however the amount of revenue resulting from approval of the recommended actions cannot be determined at this time until the provider services agreements with health plans, IPA's, medical groups, or other payors, are fully negotiated and executed.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

As with the current delegated authority, the Department may utilize the standard provider agreement provided by health plans, medical groups, IPAs, or other payors in order to expedite execution of the agreements. Such contractual documents will comply with State law and the required provisions set forth by the California Department of Managed Care. These standard agreements contain mutual indemnification clauses and require use of binding arbitration to resolve disputes.

The Department will ensure that all provider services agreements and/or amendments negotiated and executed under this delegated authority will contain rates that are at or above the aggregate/average variable cost for all services in each participating facility or all facilities, or other prevailing market/industry reimbursement rates (e.g., Rogers/Post-Stabilization Rates, CMAC rates, MFS, IRR, Medicare rates, percentage above Medi-Cal or Medicare rates, etc.), or a combination of

aggregate/average variable cost and other reimbursement mechanisms.

County Counsel will review and approve all agreements negotiated under this delegated authority prior to execution. Chief Financial Officers (CFO) at each facility and the DHS CFO will review and approve payment terms negotiated for each agreement. Your Board and the CEO will be notified of the use of this delegated authority via a Board memorandum.

IMPACT ON CURRENT SERVICES (OR PROJECTS)

Maximizing net revenues on patients who received medical care at County facilities will help DHS meet its budgeted revenue amounts.

Respectfully submitted,

Mitchell H. Katz, M.D.

Director

MHK:lg

c: Chief Executive Office
County Counsel
Executive Office, Board of Supervisors